

CITY OF NEWPORT BEACH
Newport Beach, California

Single Audit Report on Federal Awards

Year ended June 30, 2004

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Year ended June 30, 2004

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City Council
City of Newport Beach, California

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

We have audited the financial statements of the City of Newport Beach, California, as of and for the year ended June 30, 2004, and have issued our report thereon dated November 12, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the City of Newport Beach, California's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Newport Beach, California's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the City's management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Conrad and Associates, L.L.P.

November 12, 2004

City Council
City of Newport Beach, California

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of the City of Newport Beach, California, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The City of Newport Beach, California's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Newport Beach, California management. Our responsibility is to express an opinion on the City of Newport Beach, California's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Newport Beach, California's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Newport Beach, California's compliance with those requirements.

In our opinion, the City of Newport Beach, California complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the City of Newport Beach, California, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Newport Beach, California's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the City of Newport Beach, California, as of and for the year ended June 30, 2004, and have issued our report thereon dated November 12, 2004. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information of the City's management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cornel and Associates, L.L.P.

November 12, 2004

CITY OF NEWPORT BEACH
Schedule of Expenditures of Federal Awards
Year ended June 30, 2004

Federal Grantor/ Pass-through Grantor/ Program Title	Program Identification Number	Federal Domestic Assistance Number	Federal Financial Assistance Expenditures	Payments to Subrecipients
<u>U.S. Department of Housing and Urban Development</u>				
Direct assistance:				
Community Development				
Block Grant	B-99-MC-06-0546	14.218	\$ 202,481	58,952
Section 108 Loan	B-00-MC-06-0546	14.248	852,313	-
<u>U.S. Department of Justice</u>				
Direct Assistance:				
COPS UHP	01-UM-WX-0025	16.710	163,900	-
2001 COPS Technology Grant	-	16.710	143,769	-
Passed through City of Brea:				
Office of Community Oriented				
Policing Services (COPS) - MORE	99-CL-WX-0240	16.710	304,688	-
Subtotal			612,357*	-
Direct Assistance:				
Local Law Enforcement Block Grant	2001-LB-BX-3554	16.592	42,423	-
<u>U.S. Federal Emergency Management Agency</u>				
Passed through the State of California -				
Office of Management Services:				
Office of Emergency Services	FEMA-1203-DR	97.052	123,687	-
Domestic Preparedness	FEMA-1203-DR	97.004	104,115	-
Citizen Corp and CERT	-	97.053	823	-
Assistance to Firefighters	EMW-2002-FG-01207	97.044	62,991	-
<u>U.S. Department of Transportation</u>				
Passed through the State of California -				
Department of Transportation:				
Seismic Retrofit	-	20.205	2,936	-
AHRP	STPLMA-5151(008)	20.205	244,090	-
Subtotal			247,026	-
Office of Traffic Safety:				
OTS GIS Collisions	-	20.601	50,000	-
DUI - Enforcement	IN33001	20.601	24,009	-
Subtotal			74,009	-
California Seat Belt Grant	IN33001	20.604	14,311	-
Office of Criminal Justice Planning:				
Every 15 Minutes	-	20.600	11,811	-
<u>U.S. Department of Education</u>				
Passed through the State of California -				
Office of Library Services:				
Library Services and Technology Act	40-5404	84.341	31,508	-

(continued)

CITY OF NEWPORT BEACH
Schedule of Expenditures of Federal Awards
(Continued)

Federal Grantor/ Pass-through Grantor/ <u>Program Title</u>	Program Identification <u>Number</u>	Federal Domestic Assistance <u>Number</u>	Federal Financial Assistance <u>Expenditures</u>	Payments to <u>Subrecipients</u>
<u>U.S. Environmental Protection Agency</u>				
Direct Assistance:				
Water Infrastructure- Big Canyon	XP-97965801	66.458	<u>867,300*</u>	<u>-</u>
 <u>U.S. Department of Treasury</u>				
Passed through the State of California -				
Department of Justice:				
Federal Asset Forfeiture	-	NA	16,776	-
Federal Asset Forfeiture – Enforcement	-	NA	<u>91,330</u>	<u>-</u>
Subtotal			<u>108,106</u>	<u>-</u>
Total Federal Awards			<u>\$3,355,261</u>	<u>58,952</u>

* - Major program.

NA - Not applicable

The accompanying notes are an integral part of this schedule.

CITY OF NEWPORT BEACH

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

(a) Scope of Presentation

The accompanying schedule presents only the expenditures incurred (and related awards received) by the City of Newport Beach, California (City) that are reimbursable under federal programs of federal financial assistance. For purposes of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from non-federal entities. Only the portion of program expenditures reimbursable with such federal funds are reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized and the portion of program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

(b) Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recognized when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported include any property or equipment acquisitions incurred under the Federal program.

(c) Subrecipients

For the year ended June 30, 2004, payments to subrecipients consisted of the following:

FISH – Homeless Emergency Assistance	\$30,052
Orange Coast Interfaith Shelter – Temporary Shelter	10,000
SPIN – Serving People In Need	9,500
Mercy House	5,400
WISE Place – O.C. YMCA	<u>4,000</u>
Total	<u>\$58,952</u>

CITY OF NEWPORT BEACH
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

(A) Summary of Auditors' Results

1. An unqualified opinion was issued by the auditors on the financial statements of the auditee.
2. There were no material weaknesses or reportable conditions in internal control over financial reporting based upon our audit of the financial statements of the auditee.
3. The audit disclosed no noncompliance which is material to the financial statements of the auditee.
4. There were no material weaknesses or other reportable conditions in internal control over major programs of the auditee.
5. An unqualified opinion was issued by the auditors on compliance for major programs.
6. The audit disclosed no audit findings required to be reported under paragraph .510(a) of OMB Circular A-133.
7. The major programs of the auditee was the Big Canyon Reservoir Project from the U.S. Environmental Protection Agency, CFDA#66.458 and the COPS MORE, Technology and UHP grants from the U.S. Department of Justice, CFDA#16.710 (of which the MORE grant was passed through the City of Brea, CA).
8. The dollar threshold used to distinguish Type A and Type B programs was \$300,000.
9. The auditee met the criteria to be classified as a low risk auditee for the year ended June 30, 2004.

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

There are no auditors' findings required to be reported in accordance with GAGAS.

(C) Findings and Questioned Costs for Federal Awards as Defined in Paragraph .510(a) at OMB Circular A-133

There are no auditors' findings required to be reported in accordance with paragraph .510(a) of OMB Circular A-133.

CITY OF NEWPORT BEACH
Summary Schedule of Prior Audit Findings
Year ended June 30, 2004

There were no prior audit findings from previous audit reports requiring follow-up during the year ended June 30, 2004.